

P-415/CI-88-478CLOSING INVESTIGATION AND APPROVING TARIFF FILING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Barbara Beerhalter	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Darrel L. Peterson	Commissioner

In the Matter of the Complaint of the Mayor
and City Council of Eden Valley Regarding
the Rates of Melrose Telephone Company

ISSUE DATE: May 3, 1989

DOCKET NOS. P-415/CI-88-478
P-415/M-89-138

In the Matter of a Tariff Filing by Melrose
Telephone Company

ORDER CLOSING INVESTIGATION AND
APPROVING TARIFF FILING

PROCEDURAL HISTORY

On July 13, 1988 the City of Eden Valley, by its mayor and city council, filed a complaint under Minn. Stat. § 237.081 (1988) alleging that the rates of its local exchange carrier, Melrose Telephone Company, were excessive and unreasonable. The Commission referred the Complaint to the Department of Public Service (the Department) for investigation.

The Department conducted a review of the Company's earnings and concluded its monthly rates should be reduced by approximately \$4.15 per line. On March 8, 1989 the Company filed new proposed rates, representing rate reductions of approximately \$4.00 per line. On March 28, 1989 the Department filed its report and recommendation, which recommended approval of the rate reductions proposed by the Company.

The City of Eden Valley supported the Department's recommendation.

FINDINGS AND CONCLUSIONS

Jurisdiction

Melrose Telephone Company is an independent telephone company under Minn. Stat. § 237.01, subd. 3 (1988) and may therefore set its rates without going through the general rate case procedure

required of larger companies. Minn. Stat. § 237.075, subd. 9 (1988). Independent telephone companies are subject to the Commission's complaint jurisdiction, however, and governing bodies of political subdivisions are specifically authorized to bring such complaints. Minn. Stat. § 237.081, subd. 1a (1988). The Complaint of the Eden Valley City Council is therefore properly before the Commission.

Factual Background

Melrose Telephone Company is an investor owned telephone utility providing local service to eight exchanges in central Minnesota. In 1984 the Company began a \$14,000,000 renovation of its system to improve its quality of service. In 1987 the Company increased its rates to current levels, which are \$14.00 for one-party residential service and \$19.00 for one-party business service. The Company explained, when the rates were filed and in the course of this investigation, that the 1987 rates represented an approximation of the rate levels necessary to recover the \$14,000,000 investment and were subject to revision as the Company's financial situation stabilized.

In its earnings review the Department examined the Company's rate base, operating expenses, depreciation expenses, taxes, capital structure, degree of risk assumed by investors, and anticipated revenues. On the basis of this examination the Department concluded that continued application of the current rate schedule would result in excessive Company profits. The Department recommended a specific revenue requirement, rate of return, and rate schedule.

The proposed rate schedule filed by the Company differs from the one proposed by the Department by only 15 cents per line per month. It represents a substantial (\$4.00 per line per month) reduction from current rates.

The City of Eden Valley stated it considered the Company's proposed rate schedule a satisfactory resolution of its Complaint.

Commission Action

The Commission agrees with the Department, the Company, and Complainant that the new rates proposed in the Company's March 8 tariff filing constitute a reasonable resolution of this Complaint. The thorough earnings review conducted by the Department provides a reliable indication of appropriate earning and rate levels for this Company. As the Department itself pointed out, however, it is impossible to identify appropriate earning and rate levels with absolute precision. The proposed rates are within a range of rates demonstrated to be reasonable by the earnings review, and they will be approved.

ORDER

1. The rate schedule filed by Melrose Telephone Company on March 8, 1989 is approved and shall be put into effect on June 1, 1989.

2. The investigation of the Complaint filed by the Mayor and City Council of the City of Eden Valley is hereby concluded.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)